POXONO CAPITAL

INVESTMENT STRATEGY NOTE

Managing Long-Term Positions in the Short Term

NOVEMBER 2024

We recently discussed liquidity as a driver of asset prices over the long term. There is also a short-term relationship. A popular chart going around in crypto circles is the global money supply (aka the money that exists in the world) and the price of Bitcoin. Bitcoin typically tracks money supply on a 60-70 day lag. This chart illustrates the correlation—more money in the system is correlated with increased Bitcoin price. We believe this is due to the supply demand relationship. There is a fixed number of Bitcoin resulting in constant supply, and there is more money in the world resulting in higher demand. When there is more demand than supply, price must go up to balance supply and demand.

Chart 1: .GMS* is the global money supply (white line). The XBTUSD is the price of Bitcoin offset by 70 days.

As you can see in the chart below, the global money supply is on a steady upward long-term trend, and we think the global money supply will continue to increase.

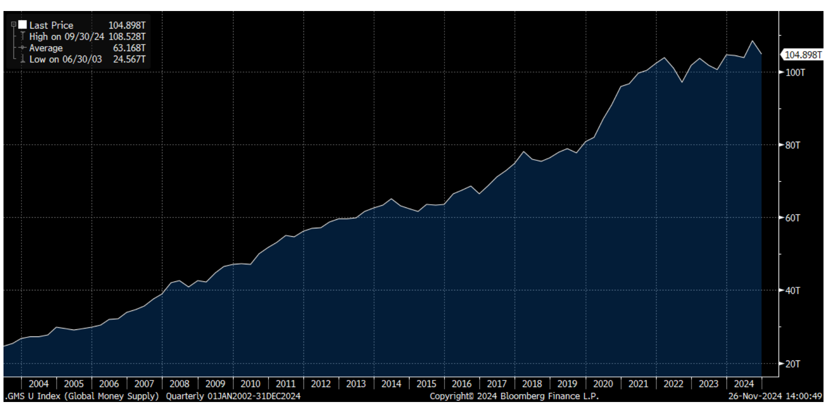

Chart 2: Global Money Supply .GMS custom index in Bloomberg. Custom index expression is available at the end of this note.

We've included Bitcoin in appropriate portfolios, and we continue to like Bitcoin where appropriate because we think global money supply will continue to increase as deficits, central banks, etc. continue down their path. That being said, it certainly looks like some short-term indicators are signaling to hedge some of the Bitcoin risk. For that reason, we like to be nimble and prudent where appropriate. Options on the Bitcoin ETF were recently listed—but expensive relative to 90-day realized volatility (41.82 realized vol 90D vs 60+ implied volatility in options markets). We have implemented a small spread trade where it seems appropriate to hedge some Bitcoin risk during what we expect to be a short-term drawdown. Please reach out if you would like to walk through the trade details over the phone.

In addition, we understand this relationship exists in other assets. For instance, please see a similar chart below. The chart below is the relationship between Gold with a 30-day offset and the Global Money Supply.

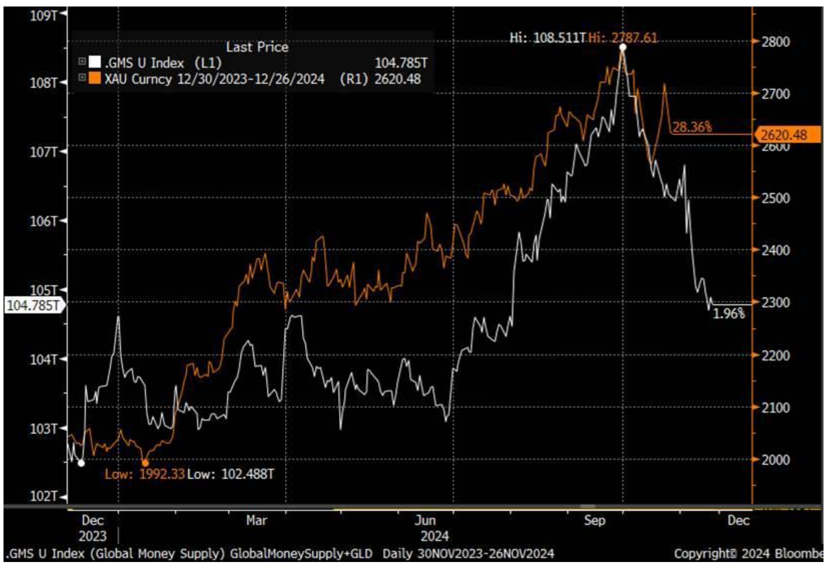

Chart 3: .GMS* is the global money supply (white line). The XAU Curncy is the price of golf offset by 30 days.

Given the difference in lag (30 days for Gold vs 70 days for Bitcoin), Gold is deeper into its drawdown but still has room to fall if the relationship persists. We think this is interesting because Gold's implied volatility in options is slightly less expensive compared to its 90 days realized volatility even though it is deeper into a drawdown (16.36 realized vol 90D vs 15+ implied volatility in options markets).

We also included a trade in Gold in applicable portfolios. Please reach out if you would like to walk through the trade details over the phone.

Thanks again for reading. We appreciate all feedback on notes.

*GMS or Global Money Supply is a custom index in Bloomberg. It is defined as: ((ECMSM2 Index * 1000000) * (EUR Curncy)) + ((CNMSM2 Index * 1000000000) / (CNY Curncy)) + (M2NS Index * 1000000000) + ((JMNSM2 Index * 1000000000000) / JPY Curncy) + ((KOMSM2 Index * 1000000000) / (KRW Curncy)) + ((MSCAM2 Index * 1000000) / (CAD Curncy)) + ((TWMSM2 Index * 1000000000) / (TWD Curncy)) + ((BZMS2 Index * 1000000000) / (BRL Curncy)) + ((SZMSM2 Index * 1000000) / (CHF Curncy)) + ((AUM3 Index * 1000000000) * (AUD Curncy)) + +((MXMSM2 Index * 1000000000) / (MXN Curncy)) + (ECORUKN Index * 1000000000)

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